Major Patent Misuse/Antitrust Victory for Philips Electronics In Federal Circuit

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On Wednesday, September 21, 2005, WilmerHale secured an important win in the US Court of Appeals for the Federal Circuit for our client Philips Electronics in *US Philips Corporation* v. *International Trade Commission*. Adopting both the legal positions and the factual findings urged by the firm on behalf of Philips, the Court held that the package licenses used by Philips and two licensing partners to license the patents covering the basic technology for CD-R and CD-RW discs did not involve improper “tying” of essential and non-essential patents under either the per se or rule of reason analysis adopted by the Commission. The decision clarifies an area of the law at the intersection of patent law and antitrust that is of great importance to high-technology companies, which increasingly rely on package licenses as an efficient means to make technologies available to the market.

In an opinion by Judge Bryson, the Federal Circuit first found that the Commission’s reliance on per se analysis was legally flawed. The Court held that decisions condemning patent-product ties were inapplicable because in those cases the market power of the tying patent had been used to force licensees either to use the tied product or to pay some price for the purportedly free tied product. In Philips' package licenses, by contrast, the Court explained, licensees were under no obligation to use the supposedly non-essential patents included and there was no evidence suggesting that the licenses for those supposedly non-essential patents were anything but genuinely free. The Court also embraced Philips’ contention that package licenses bring important procompetitive benefits.

The Court went on to determine that the Commission’s factual findings were infected by a series of legal errors. In overturning those findings, the Court first emphasized that patents in a package license can be regarded as non-essential “only if there are ‘commercially feasible’ alternative to those patents” in the sense that “there was demand for [them] that went unmet because of the coercive effect of [the licensor’s] inclusion” of the supposedly non-essential patents in the package licenses. In criticizing the Commission’s rule of reason analysis, the Court also emphasized that the Commission had not given enough weight to the procompetitive benefits of package licenses, such as reduced transaction costs that would otherwise be associated with pricing individual patents and monitoring possible infringements. Finally, the Court noted that in markets involving rapidly developing technologies, patents that were indisputably essential at one time might become

non-essential simply as a result of market-driven technological innovations. Patentees should not be penalized, the Court indicated, for failing constantly to adjust their package licenses in light of these changes.

Douglas Melamed, William Kolasky and Edward DuMont led the WilmerHale team working on the case, which also included Jonathan Cedarbaum and Barbara Blank.